



United States Department of the Interior



BUREAU OF LAND MANAGEMENT

Montana State Office

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IN REPLY TO:

SDR-922-01-08

3160 (922.WL)

JUN 28 2001

REGISTERED MAIL-RETURN RECEIPT REQUESTED RR 480 174 865

DECISION

Mr. Michael C. Erickson
K2 America Corp.
Suite 500, 435 - 4th Avenue S.W.
Calgary, Alberta T2P 3A8

SDR No. 922-01-08

AFFIRMED AS MODIFIED

K2 America Corp. (K2) requests a State Director Review (SDR) of the March 19, 2001, decision of the Great Falls Oil and Gas Field Station (GFFS) Supervisor requiring K2 to submit a progress summary report of the regional study on the Madison Formation. The decision also required K2 to follow-up on mechanical integrity tests that were not conducted, and it required K2 to perform work on a minimum of six wells. The SDR request was considered timely filed on April 16 in accordance with 43 CFR 3165.3(b) and was assigned number SDR 922-01-08. K2 requested the opportunity to give an oral presentation. The oral presentation took place on June 12.

BACKGROUND

On January 16, 2001, the GFFS sent a letter (Enclosure 1), to K2 identifying 20 wells in the Tesoro Cut Bank Sand Unit and one well in the Kye Trout Field that are either shut-in or temporarily abandoned. The letter requested that K2 submit their plans to either return the wells to production or to plug and abandon the wells.

On March 1, K2 sent a response letter (Enclosure 2), to the GFFS. In the letter, K2 explained that they have been conducting a regional study of the Madison Formation underlying the Cut Bank Formation. They stated they have reason to believe that there is a possibility to deepen many of the wells in the Tesoro Cut Bank Sand Unit to the Madison Formation. They requested a 24-month extension to the requirements in the GFFS letter in order to further evaluate the feasibility of the productive nature of the Madison Formation within the area.

On March 19, the GFFS sent a response letter (Enclosure 3), to K2. The GFFS denied the request for the 24-month extension and required K2 to perform the following:

- 1) Within 30 days, K2 is to submit a progress summary report regarding the regional study on the Madison Formation. The summary should include but not be limited to the geology, engineering, and economics of a typical well to be deepened into the Madison Formation.
- 2) Within 30 days, K2 is to follow-up on the mechanical integrity test requirements to allow temporarily abandoned well status. As per approved Sundry Notices dated February 19, 1999, for wells 11-2, 11-5, 14-11, and 15-1, K2 was to have completed mechanical integrity tests on the four wells prior to December 31, 1999.
- 3) Following review of the progress summary report, K2 will be given the option to choose a minimum of six wells to either deepen to the Madison Formation and return to production, return to production from the current Cut Bank Formation completions, or plug. This must be completed by August 31, 2001.

On April 16, K2 filed a request for a State Director Review with oral presentation. The oral presentation was scheduled for June 12.

ORAL PRESENTATION

K2 gave an oral presentation on June 12. They provided information concerning their various exploration and production areas of focus on the Blackfeet Reservation. They presented the current information regarding their regional study of the Madison Formation which consisted of seismic, geologic, engineering, and economic data. They also presented some of the problems they have encountered, and explained why additional analysis was needed prior to developing the Madison Formation.

DISCUSSION

The presentation by K2 appeared to satisfy the first requirement of the GFFS March 19 letter. We encouraged K2 to provide the same information to the GFFS. K2 gave a similar presentation and provided the information to the GFFS on June 13. A discussion between this office and the GFFS Supervisor revealed that the GFFS agrees that their first requirement has been met.

The second requirement in the March 19 letter required that mechanical integrity tests be conducted on four wells. K2 agreed that the tests were necessary and agreed to conduct the tests.

DECISION

The first requirement of the GFFS letter of March 19 has been met. Therefore no decision is required. At the oral presentation, K2 verbally agreed to conduct the required mechanical integrity tests. Therefore, the decision of the GFFS Supervisor is affirmed, and K2 is required to conduct mechanical

integrity tests on wells 11-2, 11-5, 14-11, and 15-1 in the Tesoro Cut Bank Sand Unit. The tests must be conducted within 30 days of receipt of this letter and must be conducted in accordance with the approved Sundry Notices

K2 has shown that they are progressing on their regional study of the Madison Formation and evaluating the potential of deepening the existing shut-in and temporarily abandoned wells. Therefore, we are granting an extension to and modifying the third requirement in the GFFS letter of March 19. K2 must submit a progress report, similar to the one presented during the SDR, on their evaluation of Madison Formation. The report must be submitted to the GFFS within 12 months of receipt of this letter. At that time, the GFFS will review your evaluation. If progress is being made, and additional time for evaluation is needed, the GFFS will grant another extension up to 12 months. If progress has not been made, or your study reveals areas that do not have Madison Formation potential, the GFFS may require you to return certain wells to production or plug and abandon certain wells.

This Decision may be appealed to the Board of Land Appeals, Office of the Secretary, in accordance with the regulations contained in 43 CFR 4.400 and Form 1842-1 (Enclosure 1). If an appeal is taken, a Notice of Appeal must be filed in this office at the aforementioned address within 30 days from receipt of this Decision. A copy of the Notice of Appeal and of any statement of reasons, written arguments, or briefs must also be served on the Office of the Solicitor at the address shown on Form 1842-1. It is also requested that a copy of any statement of reasons, written arguments, or briefs be sent to this office. The appellant has the burden of showing that the Decision appealed from is in error.

If you wish to file a Petition for a Stay of this Decision, pursuant to 43 CFR 4.21, the Petition must accompany your Notice of Appeal. A Petition for a Stay is required to show sufficient justification based on the standards listed below. Copies of the Notice of Appeal and Petition for a Stay must also be submitted to each party named in the Decision and to the Interior Board of Land Appeals and to the appropriate Office of the Solicitor (43 CFR 4.413) at the same time the original documents are filed with this office. If you request a stay, you have the burden of proof to demonstrate that a stay should be granted.

Standards for Obtaining a Stay

Except as otherwise provided by law or other pertinent regulation, a petition for a stay of a Decision pending appeal shall show sufficient justification based on the following standards:

- 1 The relative harm to the parties if the stay is granted or denied,
- 2) The likelihood of the appellant's success on the merits

The likelihood of immediate and irreparable harm if the stay is not granted, and

- 4) Whether the public interest favors granting the stay

John E. Moorhouse

Thomas P. Lonnie
Deputy State Director
Division of Mineral Resources

4 Enclosures

- 1-GFFS letter of January 16 (2pp)
- 2-K2 letter of March 1 (1p)
- 3-GFFS letter of March 19
- 4-Form 1842-1 (1 p)

cc: (w/o encls.)

Ross Deny, BIA Superintendent, Browning
Earl Old Person, Chairman, Blackfeet Tribal Business Council
WO(310), LS, Rm. 406
All BLM State Offices
Great Falls Oil and Gas Field Station
Miles City Field Office
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